

***United States Court of Appeals
for the Second Circuit***



EXHIBITS

ORIGINAL
74-1293

United States Court of Appeals

For the Second Circuit.

HARRY LEWIS,

Plaintiff-Appellant,

against

GEORGE L. VARNES,

Defendant-Appellee,

and

ELI LILLY AND COMPANY,

Defendant.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK.

EXHIBIT VOLUME.

MORRIS J. LEVY,

Attorney for Plaintiff-Appellant,

261 Broadway,

New York, N. Y. 10007

SHAW, BERNSTEIN, SCHEUER, BOYDEN & SARNOFF,

Attorneys for Defendant-Appellee,

George L. Varnes,

292 Madison Avenue,

New York, N. Y. 10017

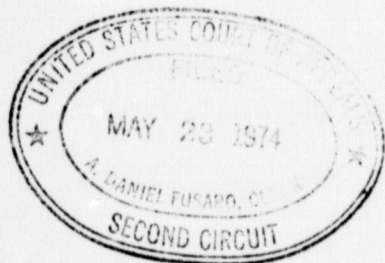
DEWEY, BALLANTINE, BUSHBY, PALMER & WOOD,

Attorneys for Defendant,

Eli Lilly and Company,

140 Broadway,

New York, N. Y. 10005



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EXHIBIT A.
ELI LILLY AND COMPANY
INDIANAPOLIS 6, U. S. A.
January 20, 1967

Jan 19-1967
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C. Case

EUGENE H. REEGLY
PRESIDENT

Mr. George L. Varnes
7777 Ridge Road
Indianapolis, Indiana 46220

Dear Mr. Varnes:

Attached to this letter is a Stock Option Grant executed on this date and granting to you the right to purchase Common Stock of the Company in accordance with the terms and conditions stated in the Option. The Option Price, which is the fair market value of the stock on this date, is \$89.50.

Two types of options have been granted by the Company. Options granted before January 1, 1964, are called "restricted stock options" and options granted after December 31, 1963, are called "qualified stock options". Both designations are the terminology used by the Internal Revenue Code.

This Option is intended to be a "qualified stock option". I am advised that no income tax is imposed, either when the Option is granted or at the time it is exercised. Also, if the Option Shares are not disposed of within three (3) years from the date of acquisition, the gain on any subsequent sale will be taxed at capital gain rates.

The holding period for any stock purchased under a "restricted stock option" remains the same. If the Option Shares are not disposed of within two (2) years following the date of the stock option grant and six (6) months following the date of transfer, capital gain rates will apply to any later sale.

I recommend that you study carefully the provisions of the Option. Before exercising your right to purchase stock under this Option or disposing of your Option Shares by sale or gift, I urge you to be properly advised of possible application of provisions of the Internal Revenue Code. The consequences of mistaken action could be most costly to you.

It gives me pleasure to extend to you this stock purchase privilege.

Sincerely yours,

ENB:MWS

EXHIBIT A

ELI LILLY AND COMPANYSTOCK OPTION GRANT

This stock option ("Option") has been granted this 20th day of January, 1967, by Eli Lilly and Company, an Indiana corporation, with its principal offices in Indianapolis, Indiana

("Lilly"), to George L. Varnes

residing at 7777 Ridge Road, Indianapolis, Indiana 46220

("Optionee").

RECITALS

Pursuant to the 1964 STOCK OPTION PLAN FOR ELI LILLY AND COMPANY AND ITS SUBSIDIARIES, as amended ("Plan"), the Stock Option Committee ("Committee") has determined upon the form of this Option and selected the Optionee, an employee of the Company (including Lilly and its subsidiaries), as a participant eligible under the Plan.

OPTION

Lilly hereby grants to Optionee the right to purchase the Option Shares from Lilly upon the terms and conditions following:

Section 1. Option Shares. The Option Shares shall consist of 8,000 shares of Common Stock of Lilly.
8,000 1968 stock split

EXHIBIT A

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Section 2. Option Price. The option price shall be ~~\$89.50~~ ^{44.75} per share ("Option Price"), determined by the Committee to be the fair market value of the Option Shares at the time this Option is granted.

Section 3. Adjustments to Option Shares and Option Price. In the event of any subdivision or combination of shares of Common Stock of Lilly, or in the event of a stock dividend, capital reorganization, consolidation or merger, an appropriate adjustment shall be made to the number of Option Shares still subject to purchase under this Option or to the Option Price with respect to such shares or to both. The Committee shall determine what adjustments, if any, are appropriate to reflect such event.

Section 4. Option Period. The period during which this Option may be exercised ("Option Period") shall commence on the date of this Option and end at the close of business on the 19th day of January, 1972 ("Termination Date"); provided that the Option Period shall terminate upon the occurrence prior to the Termination Date of any of the following:

a. Termination of employment (as defined below) of Optionee with the Company, except in cases in which concurrently with such termination, Optionee dies or becomes a Retired Employee or a Deferred Benefit Employee under The Lilly Retirement Plan.

b. At the close of business on the day two (2) months next following the Optionee's becoming a Retired Employee or a Deferred Benefit Employee under The Lilly Retirement Plan.

c. Expiration of eleven (11) months after the death of Optionee if Optionee's death occurs during the Option Period and while he is in the active service of the Company as an officer or other executive, professional or administrative employee.

"Termination of employment" shall mean the cessation for any reason of the relation of employer and employee between the Optionee and the Company. The Committee shall determine if a bona fide leave of absence constitutes a termination of employment.

Section 5. Limitations on Right to Exercise Option. The right to exercise this Option during the Option Period shall be subject to the following limitations:

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EXHIBIT A

a. During the lifetime of Optionee no one, other than Optionee, may exercise this Option.

b. After the death of Optionee, the Option may be exercised only by the personal representatives or other person or persons ("Successor Optionee") entitled to the Option under the last will and testament of Optionee or under the laws of descent and distribution, as the case may be, in accordance with the provisions of Section 7.

c. There shall be no right to exercise this Option with respect to a fractional share or with respect to less than thirty (30) Option Shares unless the exercise covers the entire balance of the Option Shares under this Option.

d. This Option may not be exercised unless the shares subject to purchase upon exercise are then registered under the Securities Act of 1933 and a current prospectus meeting the requirements of such Act is then available. Until expiration of the Option Period or until such earlier date on which this Option may be exercised in full, Lilly will endeavor to keep current under such Act a registration statement covering such shares and to keep available a current prospectus meeting the requirements of such Act.

e. This Option may not be exercised while there is outstanding an Option granted by Lilly to Optionee before the granting of this Option, with an option price, adjusted to such date, higher than the Option Price of this Option. For purposes of this paragraph an Option is outstanding until it is exercised in full or until it expires solely by lapse of time.

Section 6. Non-Transfer of Option. This Option is not transferable except by will or under the laws of descent and distribution after the death of Optionee.

Section 7. Manner of Exercise of Option. Any exercise of this Option must be by notice in writing, substantially in the form attached as Exhibit A to this Option, given to the Treasurer of Lilly. Such notice must specify the number of Option Shares being purchased and must be accompanied by payment in full for the Option Shares being purchased, either in cash or by certified or cashier's check to the order of Lilly.

Section 8. Ownership of Option Stock and Delivery of Certificate. Upon satisfaction of the conditions specified in Section 7, Lilly shall take prompt action to have the Option Shares issued or transferred to Optionee or to Successor Optionee and such Optionee or Successor Optionee shall be the owner of such Option Shares from and after the

EXHIBIT A

date of their issuance or transfer on the books of Lilly. Lilly agrees, within a reasonable time thereafter, to deliver to Optionee or to Successor Optionee a certificate or certificates evidencing ownership of the Option Shares with respect to which this Option has been so exercised.

Section 9. Notices and Payments. Any notice to be given by Optionee or by Successor Optionee hereunder shall be in writing, and any such notice and payment hereunder shall be deemed to have been duly given or made only upon receipt thereof by the Treasurer of Lilly at 740 South Alabama Street, Indianapolis, Indiana. Any notice or communication by Lilly hereunder shall be in writing and shall be deemed to have been given in the case of Optionee if mailed or delivered to Optionee at his address above set forth, or to such other address as Optionee may specify for the purpose by notice to Lilly, and in the case of any Successor Optionee to such address as Successor Optionee may specify for the purpose by notice in writing to Lilly.

Section 10. Agreement to Serve. By accepting this Option, Optionee agrees to remain in the service of the Company for a period of at least two (2) years from the date hereof, at the pleasure of the employing Company, and at such compensation as the Board of Directors or the Salary Committee of the employing Company shall reasonably determine from time to time.

Section 11. Sale of Option Stock Within Three Years. If Optionee shall dispose of Option Shares by sale, exchange, gift or transfer of legal title, prior to the expiration of the three (3) year period beginning on the day following the issuance or transfer of such Option Shares to Optionee, he shall promptly notify the Secretary of Lilly of such disposition.

Section 12. Waiver. The waiver by Lilly of any provision of this Option at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Option at any subsequent time or for any other purpose.

Section 13. Revocation or Modification. This Option shall be irrevocable during the Option Period and its validity and construction shall be governed by the laws of the State of Indiana, except that Lilly shall have the right to revoke this Option at any time during the Option Period if it is contrary to law or to modify it to bring it into compliance with any valid and mandatory regulation now or hereafter promulgated by any governmental agency having jurisdiction.

EXHIBIT A

Section 14. Section Headings. The section headings in this Option are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this Option.

Section 15. Determinations by Committee. Determinations by the Committee pursuant to any provision of the Plan or of this Option shall be final and conclusive unless otherwise determined by the Board of Directors of Lilly and in any such event such determination by the Board of Directors of Lilly shall be final and conclusive.

Section 16. Effective Date. The effective date of this Option shall be the date of its execution by Lilly and the same shall be fully effective from and after such date.

IN WITNESS WHEREOF, Lilly has caused this Option to be executed and its Corporate Seal to be hereunto affixed, in Indianapolis, Indiana, by its proper officers thereunto duly authorized, on the date hereinabove first set forth.

ELI LILLY AND COMPANY

By Eugene M. Beesley
E. M. Beesley, President

Attest:

C. H. Bradley, Jr.

C. H. Bradley, Jr., Secretary

EXHIBIT A

EXHIBIT A

(Date)

Eli Lilly and Company
740 South Alabama Street
Indianapolis, Indiana 46206

Attention: Treasurer

Gentlemen:

Pursuant to the provisions of the Option dated _____,
granted by Eli Lilly and Company to the undersigned, to purchase
common stock of Eli Lilly and Company, notice is hereby given
that the undersigned elects to exercise said option with respect to
(Specify number of shares) _____ (Cash) (Certified Check)
(Cashiers Check) _____ to your order, in the amount of
\$ _____ accompanies this letter.

Very truly yours,

MWS

EXHIBIT B.
ELI LILLY AND COMPANY

INDIANAPOLIS, INDIANA 46206

EUGENE H. DEESLEY
PRESIDENT

January 19, 1968

Mr. George L. Varnes
7777 Ridge Road
Indianapolis, Indiana 46220

Dear Mr. Varnes:

Attached to this letter is a Stock Option Grant executed on this date and granting to you the right to purchase Common Stock of the Company in accordance with the terms and conditions stated in the Option. The Option Price, which is the fair market value of the stock on this date, is \$103.50.

Two types of options have been granted by the Company. Options granted before January 1, 1964, are called "restricted stock options" and options granted after December 31, 1963, are called "qualified stock options". Both designations are the terminology used by the Internal Revenue Code.

This Option is intended to be a "qualified stock option". I am advised that no income tax is imposed, either when the Option is granted or at the time it is exercised. Also, if the Option Shares are not disposed of within three (3) years from the date of acquisition, the gain on any subsequent sale will be taxed at capital gain rates.

The holding period for any stock purchased under a "restricted stock option" remains the same. If the Option Shares are not disposed of within two (2) years following the date of the stock option grant and six (6) months following the date of transfer, capital gain rates will apply to any later sale.

I recommend that you study carefully the provisions of the Option. Before exercising your right to purchase stock under this Option or disposing of your Option Shares by sale or gift, I urge you to be properly advised of possible application of provisions of the Internal Revenue Code. The consequences of mistaken action could be most costly to you.

It gives me pleasure to extend to you this stock purchase privilege.

Sincerely yours,

ENB:MWS

EXHIBIT B**ELI LILLY AND COMPANY****STOCK OPTION GRANT**

This stock option ("Option") has been granted this 19th day of January, 1968, by Eli Lilly and Company, an Indiana Corporation, with its principal offices in Indianapolis, Indiana, ("Lilly"), to

George L. Varnes

residing at 7777 Ridge Road

Indianapolis, Indiana 46220

("Optionee").

RECITALS

Pursuant to the 1964 STOCK OPTION PLAN FOR ELI LILLY AND COMPANY AND ITS SUBSIDIARIES, as amended ("Plan"), which is incorporated by reference herein, the Stock Option Committee ("Committee") has determined upon the form of this Option and selected the Optionee, an employee of the Company (including Lilly and its subsidiaries), as a participant eligible under the Plan.

OPTION

Lilly hereby grants to Optionee the right to purchase the Option Shares from Lilly upon the terms and conditions following:

Section 1. Option Shares. The Option Shares shall consist of 4000 shares of Common Stock of Lilly.

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EXHIBIT B

Section 2. Option Price. The option price shall be \$103.50 per share ("Option Price"), determined by the Committee to be the fair market value of the Option Shares at the time this Option is granted.

Section 3. Adjustments to Option Shares and Option Price. In the event of any subdivision or combination of shares of Common Stock of Lilly, or in the event of a stock dividend, capital reorganization, consolidation or merger, an appropriate adjustment shall be made to the number of Option Shares still subject to purchase under this Option or to the Option Price with respect to such shares or to both. The Committee shall determine what adjustments, if any, are appropriate to reflect such event.

Section 4. Option Period. The period during which this Option may be exercised ("Option Period") shall commence on the date of this Option and end at the close of business on the 18th of January, 1973 ("Termination Date"); provided that the Option Period shall terminate upon the occurrence prior to the Termination Date of any of the following:

a. Termination of employment (as defined below) of Optionee with the Company, except in cases in which concurrently with such termination, Optionee dies or becomes a Retired Employee or a Deferred Benefit Employee under The Lilly Retirement Plan.

b. At the close of business on the day two (2) months next following the Optionee's becoming a Retired Employee or a Deferred Benefit Employee under The Lilly Retirement Plan.

c. Expiration of eleven (11) months after the death of Optionee if Optionee's death occurs while he is in the active service of the Company as an officer or other executive, professional or administrative employee.

"Termination of employment" shall mean the cessation for any reason of the relation of employer and employee between the Optionee and the Company. The Committee shall determine if a bona fide leave of absence constitutes a termination of employment.

Section 5. Limitations on Right to Exercise Option. The right to exercise this Option during the Option Period shall be subject to the following limitations:

a. During the lifetime of Optionee no one, other than Optionee, may exercise this Option.

EXHIBIT B

b. After the death of Optionee, the Option may be exercised only by the personal representatives or other person or persons ("Successor Optionee") entitled to the Option under the last will and testament of Optionee or under the laws of descent and distribution, as the case may be.

c. There shall be no right to exercise this Option with respect to a fractional share or with respect to less than thirty (30) Option Shares unless the exercise covers the entire balance of the Option Shares under this Option.

d. This Option may not be exercised unless the shares subject to purchase upon exercise are then registered under the Securities Act of 1933 and a current prospectus meeting the requirements of such Act is then available or unless such registration or such current prospectus is no longer required by law. Until expiration of the Option Period or until such earlier date on which this Option may be exercised in full, Lilly will endeavor to keep current under such Act a registration statement covering such shares and to keep available a current prospectus meeting the requirements of such Act.

e. This Option may not be exercised while there is outstanding an Option granted by Lilly to Optionee before the granting of this Option, with an option price, adjusted to such date, higher than the Option Price of this Option. For purposes of this paragraph an Option is outstanding until it is exercised in full or until it expires solely by lapse of time.

Section 6. Non-Transfer of Option. This Option is not transferable except by will or under the laws of descent and distribution after the death of Optionee.

Section 7. Manner of Exercise of Option. Any exercise of this Option must be by notice in writing, substantially in the form attached as Exhibit A to this Option, given to the Treasurer of Lilly. Such notice must specify the number of Option Shares being purchased and must be accompanied by payment in full for the Option Shares being purchased, either in cash or by certified or cashier's check to the order of Lilly.

Section 8. Ownership of Option Stock and Delivery of Certificate. Upon satisfaction of the conditions specified in Section 7, Lilly shall take prompt action to have the Option Shares issued or transferred to Optionee or to Successor Optionee and such Optionee or Successor Optionee shall be the owner of such Option Shares from and after the

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EXHIBIT B

date of their issuance or transfer on the books of Lilly. Lilly agrees, within a reasonable time thereafter, to deliver to Optionee or to Successor Optionee a certificate or certificates evidencing ownership of the Option Shares with respect to which this Option has been so exercised.

Section 9. Notices and Payments. Any notice to be given by Optionee or by Successor Optionee hereunder shall be in writing, and any such notice and payment hereunder shall be deemed to have been duly given or made only upon receipt thereof by the Treasurer of Lilly at 740 South Alabama Street, Indianapolis, Indiana. Any notice or communication by Lilly hereunder shall be in writing and shall be deemed to have been given in the case of Optionee if mailed or delivered to Optionee at his address above set forth, or to such other address as Optionee may specify for the purpose by notice to Lilly, and in the case of any Successor Optionee to such address as Successor Optionee may specify for the purpose by notice in writing to Lilly.

Section 10. Agreement to Serve. By accepting this Option, Optionee agrees to remain in the service of the Company for a period of at least two (2) years from the date hereof, at the pleasure of the employing Company, and at such compensation as the Board of Directors or the Salary Committee of the employing Company shall reasonably determine from time to time.

Section 11. Sale of Option Stock Within Three Years. If Optionee shall dispose of Option Shares by sale, exchange, gift or transfer of legal title, prior to the expiration of the three (3) year period beginning on the day following the issuance or transfer of such Option Shares to Optionee, he shall promptly notify the Secretary of Lilly of such disposition.

Section 12. Waiver. The waiver by Lilly of any provision of this Option at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Option at any subsequent time or for any other purpose.

Section 13. Revocation or Modification. This Option shall be irrevocable during the Option Period and its validity and construction shall be governed by the laws of the State of Indiana, except that Lilly shall have the right to revoke this Option at any time during the Option Period if it is contrary to law or to modify it to bring it into compliance with any valid and mandatory regulation now or hereafter promulgated by any governmental agency having jurisdiction.

EXHIBIT B

Section 14. Section Headings. The section headings in this Option are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this Option.

Section 15. Determinations by Committee. Determinations by the Committee pursuant to any provision of the Plan or of this Option shall be final and conclusive unless otherwise determined by the Board of Directors of Lilly and in any such event such determination by the Board of Directors of Lilly shall be final and conclusive.

Section 16. Effective Date. The effective date of this Option shall be the date of its execution by Lilly and the same shall be fully effective from and after such date.

IN WITNESS WHEREOF, Lilly has caused this Option to be executed and its Corporate Seal to be hereunto affixed, in Indianapolis, Indiana, by its proper officers thereunto duly authorized, on the date hereinabove first set forth.

ELI LILLY AND COMPANY.

By

E. N. Beesley
E. N. Beesley, President

Attest:

C. H. Bradley, Jr.
C. H. Bradley, Jr. Secretary

EXHIBIT B

EXHIBIT A

(Date)

Eli Lilly and Company
740 South Alabama Street
Indianapolis, Indiana 46206

Attention: Treasurer

Gentlemen:

Pursuant to the provisions of the Option dated _____,
granted by Eli Lilly and Company to the undersigned, to purchase
common stock of Eli Lilly and Company, notice is hereby given
that the undersigned elects to exercise said option with respect to
(Specify number of shares) _____. (Cash) (Certified Check)
(Cashiers Check) _____ to your order, in the amount of
\$ _____ accompanies this letter.

Very truly yours,

MWS

EXHIBIT C.
ELI LILLY AND COMPANY

INDIANAPOLIS, INDIANA 46206

February 7, 1969

URGENT 4 05PM
FEB 10 1969

Mr. George L. Varnes
7777 Ridge Road
Indianapolis, Indiana 46220

Dear Mr. Varnes:

Attached to this letter is a Stock Option executed on this date and granting to you the right to purchase Common Stock of the Company in accordance with the terms and conditions stated in the Option. The Option Price, which is the fair market value of the stock on this date, is \$79.08.

Two types of options have been granted by the Company. Options granted before January 1, 1964, are called "restricted stock options" and options granted after December 31, 1963, are called "qualified stock options". Both designations are the terminology used by the Internal Revenue Code.

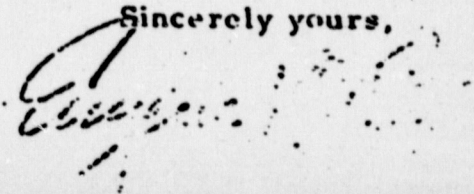
This Option is intended to be a "qualified stock option". I am advised that no income tax is imposed, either when the Option is granted or at the time it is exercised. Also, if the option shares are not disposed of within three (3) years from the date of acquisition, the gain on any subsequent sale will be taxed at capital gain rates.

The holding period for any stock purchased under a "restricted stock option" remains the same. If the option shares are not disposed of within six (6) months following the date of transfer, capital gain rates will apply to any later sale.

I recommend that you study carefully the provisions of the Option. Before exercising your right to purchase stock under this Option or disposing of your option shares by sale or gift, I urge you to be properly advised of possible application of provisions of the Internal Revenue Code. The consequences of mistaken action could be most costly to you.

It gives me pleasure to extend to you this stock purchase privilege.

Sincerely yours,



ENB:MWS

EXHIBIT C

ELI LILLY AND COMPANYSTOCK OPTION

This Stock Option has been granted this 7th day of February, 1969, by Eli Lilly and Company, an Indiana corporation, with its principal offices in Indianapolis, Indiana ("Lilly"), to

George L. Varnes

residing at 7777 Ridge Road, Indianapolis, Indiana 46220

("Optionee").

RECITALS

Pursuant to the 1968 STOCK OPTION PLAN OF ELI LILLY AND COMPANY (1968 Plan), which is incorporated by reference herein, the Stock Option Committee ("Committee") has determined upon the form of this Stock Option and selected the Optionee, an Eligible Employee of the Company, to receive a Stock Option under the 1968 Plan. Reference is made to the 1968 Plan for definitions of terms used in this Stock Option.

OPTION

Lilly hereby grants to Optionee the right to purchase Lilly Stock from Lilly upon the terms and conditions following:

Section 1. Number of Shares. The Optionee may purchase a total of 4,000 shares of Lilly Stock by one or more exercises of this Stock Option, such number, however, being subject to a Recapitalization Adjustment under the provisions of Section 3.

EXHIBIT C

Section 2. Option Price. The Option Price shall be \$79.08 per share, which has been determined by the Committee to be the Fair Market Value of Lilly Stock at the time this Stock Option is granted, such Option Price, however, being subject to a Recapitalization Adjustment under the provisions of Section 3.

Section 3. Adjustments to Number of Shares and Option Price. In the event of any subdivision or combination of shares of Lilly Stock, or in the event of a stock dividend, capital reorganization, consolidation or merger with Lilly as the surviving corporation, such Recapitalization Adjustment as the Committee shall deem to be appropriate shall be made to the number of shares still subject to purchase under this Stock Option or to the Option Price with respect to such shares or to both.

Section 4. Option Period. The Option Period during which this Stock Option may be exercised shall commence on the date of this Stock Option and end at the close of business on the 6th day of February, 1974 ("Termination Date"); provided that the Option Period shall terminate upon the occurrence prior to the Termination Date of any of the following:

- a. Termination of employment (as defined below) of Optionee with the Company, except in cases in which concurrently with such termination, Optionee dies or becomes a Retired Employee or a Deferred Benefit Employee under The Lilly Retirement Plan.
- b. At the close of business on the day two (2) months next following the Optionee's becoming a Retired Employee or a Deferred Benefit Employee under The Lilly Retirement Plan.
- c. Expiration of eleven (11) months after the death of Optionee if Optionee's death occurs while he is in the active service of the Company as an officer or other executive, professional or administrative employee.

"Termination of employment" shall mean the cessation for any reason of the relation of employer and employee between the Optionee and the Company. The Committee shall determine if a bona fide leave of absence constitutes a termination of employment.

Section 5. Limitations on Right to Exercise Stock Option. The right to exercise this Stock Option during the Option Period shall be subject to the following limitations:

- a. During the lifetime of Optionee no one, other than Optionee, may exercise this Stock Option.
- b. After the death of Optionee, the Option may be exercised only by a Successor Optionee who has satisfied Lilly of his entitlement pursuant to the last will and testament of Optionee or to the laws of descent and distribution where applicable to the estate of a deceased Optionee.

EXHIBIT C

c. There shall be no right to exercise this Stock Option with respect to a fractional share or with respect to less than fifty (50) shares of Lilly Stock unless the exercise covers the entire balance of the shares of Lilly Stock subject to purchase under this Stock Option.

d. This Stock Option may not be exercised unless the shares of Lilly Stock subject to purchase upon exercise are then registered under the Securities Act of 1933 and a current prospectus meeting the requirements of such Act is then available or unless such registration or such current prospectus is no longer required by law. Until expiration of the Option Period or until such earlier date on which this Stock Option has been exercised in full, Lilly will endeavor to keep current under such Act a registration statement covering such shares and to keep available a current prospectus meeting the requirements of such Act.

e. This Stock Option may not be exercised while there is an Outstanding Option granted by Lilly to Optionee before the granting of this Stock Option, with an Option Price, adjusted to such date, higher than the Option Price of this Stock Option.

Section 6. Non-Transfer of Stock Option. This Stock Option is not transferable except to a Successor Optionee upon satisfactory proof being submitted to Lilly of the death of the Optionee and of the entitlement of the Successor Optionee under the will of the Optionee or under the laws of descent and distribution where applicable to the estate of the deceased Optionee.

Section 7. Manner of Exercise of Stock Option. Any exercise of this Stock Option must be by notice in writing, substantially in the form attached as Appendix A to this Stock Option, given to the Treasurer of Lilly. Such notice must specify the number of shares of Lilly Stock covered by the exercise and must be accompanied by payment in full for the shares of Lilly Stock covered by the exercise, either in cash or by certified or cashier's check to the order of Lilly.

Section 8. Ownership of Lilly Stock and Delivery of Certificate. Upon satisfaction of the conditions specified in Section 7, Lilly shall take prompt action to have the shares of Lilly Stock covered by the particular exercise of this Stock Option issued or transferred to Optionee or to Successor Optionee and such Optionee or Successor Optionee shall be the owner of such shares of Lilly Stock covered by the particular exercise of this Stock Option from and after the date of their issuance or transfer on the books of Lilly. Lilly agrees, within a reasonable time thereafter, to deliver to Optionee or to Successor Optionee a certificate or certificates evidencing ownership of the shares of Lilly Stock covered by the particular exercise of Stock Option.

EXHIBIT C

Section 9. Notices and Payments. Any notice to be given by Optionee or by Successor Optionee hereunder shall be in writing, and any such notice and payment hereunder shall be deemed to have been duly given or made only upon receipt thereof by the Treasurer of Lilly at 307 East McCarty Street, Indianapolis, Indiana 46225. Any notice or communication by Lilly hereunder shall be in writing and shall be deemed to have been given in the case of Optionee if mailed or delivered to Optionee at his address above set forth, or to such other address as Optionee may specify for the purpose by notice to Lilly, and in the case of any Successor Optionee to such address as Successor Optionee may specify for the purpose by notice in writing to Lilly.

Section 10. Agreement to Serve. By accepting this Stock Option, Optionee agrees to remain in the service of the Company for a period of at least two (2) years from the date hereof, at the pleasure of the employing Company, and at such compensation as the Board of Directors or the Salary Committee of the employing Company shall reasonably determine from time to time.

Section 11. Sale of Lilly Stock Within Three Years. If Optionee shall dispose of Lilly Stock purchased upon an exercise of this Stock Option by sale, exchange, gift or transfer of legal title, prior to the expiration of the three (3) year period beginning on the day following the issuance or transfer of such shares of Lilly Stock to Optionee, he shall promptly notify the Secretary of Lilly of such disposition.

Section 12. Waiver. The waiver by Lilly of any provision of this Stock Option at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Stock Option at any subsequent time or for any other purpose.

Section 13. Termination, Modification or Substitution of Stock Option. This Stock Option shall be irrevocable during the Option Period except that Lilly shall have the right to terminate, modify or provide a substitute stock option for this Stock Option upon the conditions and subject to the provisions specified in paragraph (h) of Section 4.1 of the 1968 Plan.

Section 14. Section Headings. The section headings in this Stock Option are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this Stock Option.

Section 15. Determinations by Committee. Determinations by the Committee pursuant to any provision of the 1968 Plan or of this Stock Option shall be final and conclusive.


EXHIBIT C

Section 16. Effective Date. The effective date of this Stock Option shall be the date of its execution by Lilly and the same shall be fully effective from and after such date.

Section 17. Governing Law. The validity and construction of this Stock Option shall be governed by the laws of the State of Indiana. It is intended that this Stock Option constitute a Qualified Stock Option and it shall be construed in a manner consistent with such requirements.

IN WITNESS WHEREOF, Lilly has caused this Stock Option to be executed and its Corporate Seal to be hereunto affixed, in Indianapolis, Indiana, by its proper officers thereunto duly authorized, on the date hereinabove first set forth.

ELI LILLY AND COMPANY

By 
E. N. Beesley, President

ATTEST:

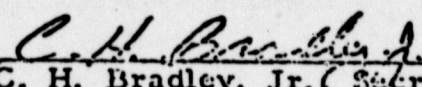

C. H. Bradley, Jr. Secretary

EXHIBIT C

APPENDIX A

(Date)

Eli Lilly and Company
307 East McCarty Street
Indianapolis, Indiana 46225

Attention: Treasurer

Gentlemen:

Pursuant to the provisions of the Stock Option dated February 7, 1969, granted by Eli Lilly and Company to the undersigned, to purchase common stock of Eli Lilly and Company, notice is hereby given that the undersigned elects to exercise such option with respect to (Specify number of shares). (Cash) (Certified check) (Cashier's check) to your order, in the amount of \$ _____ accompanies this letter.

Very truly yours,

EXHIBIT D.
ELI LILLY AND COMPANY

INDIANAPOLIS, INDIANA 46206

May 18, 1970

BURTON E. BECK
PRESIDENT

Mr. George L. Varnes
7777 Ridge Road
Indianapolis, Indiana 46240

Dear Mr. Varnes:

Attached to this letter are two stock options granted to you under the 1968 Stock Option Plan of the Company to purchase shares of the Company's Common Stock at \$ 87.50 per share, the fair market value of such stock on May 18, 1970. One option is entitled "Qualified Stock Option", and the other option is entitled "Non-Qualified Stock Option". The non-qualified stock option first becomes exercisable on May 18, 1975, and terminates on May 17, 1980. The qualified stock option is immediately exercisable and terminates on May 17, 1975. The number of shares purchasable under the non-qualified stock option will be reduced by the number you purchase under the qualified stock option.

The non-qualified stock option does not increase the aggregate number of shares that you are entitled to purchase. However, to the extent that you choose not to exercise the qualified stock option before its termination, you will have an additional five-year period to purchase the balance of shares under the non-qualified stock option.

In general, a qualified stock option entitles you to capital gains treatment on profits on the sale of shares purchased under that option if you meet the three-year holding period prescribed by the Internal Revenue Code. However, to the extent that you purchase stock under the non-qualified stock option, you will incur ordinary income tax in the amount of the difference between the option price and the fair market value on the date of exercise.

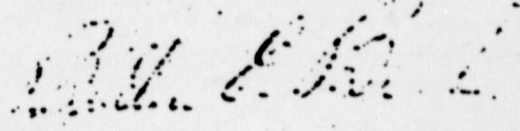
Also attached for your information and study is a more detailed explanation of the qualified and non-qualified stock options. I recommend that you study carefully the provisions of

EXHIBIT D

each option and the explanation. Before exercising your right to purchase stock under either option or disposing of your option shares by sale, exchange, gift, or transfer of legal title, I urge you to be properly advised of the possible application of the provisions of the Internal Revenue Code. The consequences of mistaken action could be most costly to you.

It gives me pleasure to extend to you this stock purchase privilege.

Sincerely yours,



BEB:MWS

EXHIBIT D
ELI LILLY AND COMPANY

QUALIFIED STOCK OPTION

This Stock Option has been granted this 18th day of May, 1970, by Eli Lilly and Company, an Indiana corporation, with its principal offices in Indianapolis, Indiana ("Lilly"), to

George L. Varnes
residing at 7777 Ridge Road
Indianapolis, Indiana 46240

("Optionee").

RECITALS

Pursuant to the 1968 STOCK OPTION PLAN OF ELI LILLY AND COMPANY ("1968 Plan"), as amended, which is incorporated by reference herein, the Stock Option Committee ("Committee") has determined upon the form of this Stock Option and selected the Optionee, an Eligible Employee of the Company, to receive a Stock Option under the 1968 Plan. Reference is made to the 1968 Plan for definitions of terms used in this Stock Option.

OPTION

Lilly hereby grants to Optionee the right to purchase Lilly Stock from Lilly upon the terms and conditions following:

Section 1. Number of Shares. The Optionee may purchase a total of 3,000 shares of Lilly Stock by one or more exercises of this Stock Option, such number, however, being subject to adjustment under the provisions of Section 3.

EXHIBIT D

Section 2. Option Price. The Option Price shall be \$87.50 per share, which has been determined by the Committee to be the Fair Market Value of Lilly Stock at the time this Stock Option is granted, such Option Price, however, being subject to Recapitalization Adjustment under the provisions of Section 3.

Section 3. Adjustments to Number of Shares and Option Price. In the event of any subdivision or combination of shares of Lilly Stock, or in the event of a stock dividend, capital reorganization, recapitalization, consolidation or merger with Lilly as the surviving corporation, such Recapitalization Adjustment as the Committee shall deem to be appropriate shall be made to the number of shares still subject to purchase under this Stock Option or to the Option Price with respect to such shares or to both.

Section 4. Option Exercise Period. This Stock Option may be exercised during the period commencing on the date of this Stock Option and ending at the close of business on the 17th day of May, 1975; provided, that this Stock Option shall earlier terminate upon, and shall in no event be exercisable after, the occurrence of any of the following:

a. Termination of employment (as defined below), except in cases in which concurrently with such termination, the Optionee dies or becomes a Retired Employee or a Deferred Benefit Employee under The Lilly Retirement Plan.

b. Expiration of the corresponding calendar day in the second month following the day on which the Optionee becomes a Retired Employee or a Deferred Benefit Employee under The Lilly Retirement Plan.

c. Expiration of the corresponding calendar day in the eleventh month following the date of death of the Optionee while in the active service of the Company as an officer or other executive, professional, or administrative employee.

"Termination of employment" shall mean the cessation for any reason of the relation of employer and employee between the Optionee and the Company. The Committee shall determine if a leave of absence constitutes a termination of employment.

Section 5. Limitations on Right to Exercise Stock Option. The right to exercise this Stock Option during the Option Exercise Period shall be subject to the following limitations:

a. During the lifetime of the Optionee no one, other than the Optionee, may exercise this Stock Option.

b. After the death of the Optionee, this Stock Option may be exercised only by a Successor Optionee who has become entitled hereunder by will or the laws of descent and distribution, and who satisfies Lilly of his entitlement under such will or laws.

ONLY COPY AVAILABLE

EXHIBIT D

c. There shall be no right to exercise this Stock Option with respect to a fractional share or with respect to less than twenty-five (25) shares of Lilly Stock unless the exercise covers the entire balance of the shares of Lilly Stock subject to purchase under this Stock Option.

d. This Stock Option may not be exercised unless the shares of Lilly Stock subject to purchase upon exercise are then registered under the Securities Act of 1933 and a current prospectus meeting the requirements of such Act is then available or unless such registration or such current prospectus is no longer required by law. Until expiration of the Option Exercise Period or until such earlier date on which this Stock Option has been exercised in full, Lilly will endeavor to keep current under such Act a registration statement covering such shares and to keep available a current prospectus meeting the requirements of such Act.

e. This Stock Option is not exercisable while there is outstanding (within the meaning of subsection (c) (2) of Section 422 of the Internal Revenue Code, as amended) any qualified stock option (or restricted stock option) which was granted, before the granting of this Stock Option, to the Optionee to purchase stock in his employer corporation or in a corporation which (at the time of the granting of this Stock Option) is a parent or subsidiary corporation of the employer corporation, or in a predecessor corporation of any of such corporations, unless this Stock Option and all such outstanding options are to purchase stock of the same class in the same corporation and the option price of this Stock Option is not less than the option price of each of such outstanding options.

Section 6. Non-Transfer of Stock Option. This Stock Option is not transferable otherwise than by will or the laws of descent and distribution.

Section 7. Manner of Exercise of Stock Option. Any exercise of this Stock Option must be by notice in writing, substantially in the form attached as Appendix A to this Stock Option; given to the Treasurer of Lilly. Such notice must specify the number of shares of Lilly Stock covered by the exercise and must be accompanied by payment in full for the shares of Lilly Stock covered by the exercise, either in cash or by certified or cashier's check to the order of Lilly. If the Optionee desires that the shares of Lilly Stock be registered in his name and that of another as joint tenants with right of survivorship, he should so state in the notice.

Section 8. Ownership of Lilly Stock and Delivery of Certificate. Upon satisfaction of the conditions specified in Section 7, Lilly shall take prompt action to have the shares of Lilly Stock covered by the particular exercise of this Stock Option issued or transferred to the Optionee or to the Optionee and another as joint tenants with right of survivorship or to a Successor Optionee and such Optionee or person or persons shall own such shares of Lilly Stock covered by the particular exercise of this Stock Option from and after the date of their issuance or transfer on the books of Lilly, but such person or persons shall have no rights as a shareholder of Lilly until such shares of Lilly Stock are so issued or transferred. Lilly agrees, within a reasonable time thereafter, to deliver to the Optionee or Successor Optionee a certificate or certificates evidencing ownership of the shares of Lilly Stock covered by the particular exercise of this Stock Option.

EXHIBIT D

Section 9. Notices and Payments. Any notice to be given by the Optionee or Successor Optionee hereunder shall be in writing, and any such notice and payment hereunder shall be deemed to have been duly given or made only upon receipt thereof by the Treasurer of Lilly at 307 East McCarty Street, Indianapolis, Indiana 46225. Any notice or communication by Lilly hereunder shall be in writing and shall be deemed to have been given in the case of the Optionee if mailed or delivered to the Optionee at his address above set forth, or to such other address as the Optionee may specify for the purpose by notice in writing to Lilly, and in the case of any Successor Optionee to such address as the Successor Optionee may specify for the purpose by notice in writing to Lilly.

Section 10. Agreement to Serve. By accepting this Stock Option, Optionee agrees to remain in the service of the Company for a period of at least two (2) years from the date hereof, at the pleasure of the employing Company, and at such compensation as the Board of Directors or the Salary Committee of the employing Company shall reasonably determine from time to time.

Section 11. Disposition of Lilly Stock Within Three Years. If the Optionee shall dispose of Lilly Stock purchased upon an exercise of this Stock Option by sale, exchange, gift or transfer of legal title, prior to the expiration of the three (3) year period beginning on the day following the issuance or transfer of such shares of Lilly Stock to the Optionee, he shall promptly notify the Secretary of Lilly of such disposition.

Section 12. Waiver. The waiver by Lilly of any provision of this Stock Option at any time or for any purpose shall not operate as or be construed to be a waiver of the same or any other provision of this Stock Option at any subsequent time or for any other purpose.

Section 13. Termination, Modification or Substitution of Stock Option. This Stock Option shall be irrevocable except that Lilly shall have the right to terminate, modify, or provide a substitute stock option for this Stock Option upon the conditions and subject to the provisions specified in paragraph (h) of Section 4.1 of the 1968 Plan.

Section 14. Section Headings. The section headings in this Stock Option are for convenience of reference only and shall not be deemed a part of, or germane to, the interpretation or construction of this Stock Option.

Section 15. Determinations by Committee. Determinations by the Committee pursuant to any provision of the 1968 Plan or of this Stock Option shall be final and conclusive.

Section 16. Effective Date. The effective date of this Stock Option shall be the date of its execution by Lilly and the same shall be fully effective from and after such date.

Section 17. Governing Law. The validity and construction of this Stock Option shall be governed by the laws of the State of Indiana. It is intended that this Stock Option constitute a "qualified stock option" within the meaning of Section 422 of the Internal Revenue Code, as amended, and it shall be construed in a manner consistent with such intent.

EXHIBIT D

IN WITNESS WHEREOF, Lilly has caused this Stock Option to be executed and its Corporate Seal to be hereunto affixed, in Indianapolis, Indiana, by its proper officers thereunto duly authorized, on the date hereinabove first set forth.

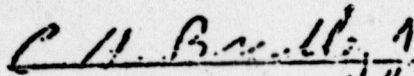
ELI LILLY AND COMPANY

By



B. E. Beck, President

ATTEST:



C. H. Bradley, Jr., Secretary

ONLY COPY AVAILABLE

EXHIBIT D

Appendix A

 (Date)

Eli Lilly and Company
 307 East McCarty Street
 Indianapolis, Indiana 46225

Attention: Treasurer

Gentlemen:

Pursuant to the provisions of the Qualified Stock Option dated May 18, 1970, granted by Eli Lilly and Company to the undersigned, to purchase common stock of Eli Lilly and Company, notice is hereby given that the undersigned elects to purchase 1 shares covered by such option. 2 payable to your order or cash in the amount of \$ 3 accompanies this letter.

I request that the shares be issued as follows:

<i>Name⁴</i>	<i>Address⁴</i>	<i>Denomination of Certificate(s)⁵</i>
-------------------------	----------------------------	---

Very truly yours,

¹Insert the number of shares you elect to purchase.

²Insert either "certified check" or "cashier's check."

³Insert the total amount required to purchase the shares specified.

⁴Insert your exact name and address as you wish them to appear on the certificate(s).

⁵Insert the number of certificates and denomination of each. For example, if you purchase 500 shares and desire 4 certificates for 100 shares and 2 for 50 shares, you should insert:

4 x 100 shares

2 x 50 shares

30
EXHIBIT E.
ELI LILLY AND COMPANY

INDIANAPOLIS, INDIANA 46206

December 6, 1968

Dear Mr. Varnes:

This letter is intended as an explanation of the effect of the two-for-one stock split approved by the shareholders on November 26, 1968, upon your option dated January 20, 1967, and the requirements for the use of the Prospectus covering shares purchased by the exercise of options.

1. The effect of the split on stock options dated
January 20, 1967

The split, you will recall, changed each share of common stock from a par value of \$2.50 per share to \$1.25 per share. Your option contains a provision that in the event of a split, the number of shares unexercised under the option shall be adjusted so that the unexercised portion of the option after the split shall be the equivalent of such portion before the split.

The following table shows (i) the number of shares available for exercise under your option before the 1968 split, (ii) the number of shares now available for exercise under such option adjusted for the two-for-one stock split, (iii) the original option price, (iv) option price adjusted for the 1968 split, and (v) the minimum number of shares exercisable under your option at any one time, as adjusted to date.

(i) Number of shares available for exercise before split	(ii) Number of shares now available for exercise by virtue of split	(iii) Original option price	(iv) Option price adjusted for stock split	(v) Minimum number of shares purchasable at one time
4000	8000	\$89.50	\$44.75	60 shares

We suggest that you attach this letter to your stock option as evidence of the Company's recognition of your remaining rights under your option and to guide your future actions under it.

EXHIBIT E

2. Use of Prospectus.

In April of this year you received a copy of the Company's Prospectus dated April 25, 1968, covering shares of Lilly stock which may have been or may be purchased by you pursuant to stock options.

Enclosed is an amendment, or "sticker", to the Prospectus that reflects the stock split, the increase in authorized shares and the elimination of authorized but unissued Preferred Stock.

I suggest that you affix the "sticker", which is gummed for the purpose, to the front page of your copy of the Prospectus dated April 25, 1968. If you sell any shares acquired by you on the exercise of stock options, it will be necessary for you to deliver a copy of that Prospectus, with the "sticker" attached, to each purchaser. If you make a sale through a broker acting as your agent (as distinguished from a broker purchasing from you for his own account), you should instruct him that the shares you are selling are covered by the Prospectus, as amended, and that the Prospectus, as amended, must be delivered to purchasers of such shares.

Additional copies of the Prospectus and the new "sticker" may be obtained from my office.

Very truly yours,

C. Harry Bradley Jr.

CHB:MWS

**EXHIBIT F.
ELI LILLY AND COMPANY**

INDIANAPOLIS, INDIANA 46206

December 6, 1968

Dear Mr. Varnes:

This letter is intended as an explanation of the effect of the two-for-one stock split approved by the shareholders on November 26, 1968, upon your option dated January 19, 1968, and the requirements for the use of the Prospectus covering shares purchased by the exercise of options.

1. The effect of the split on stock options dated
January 19, 1968

The split, you will recall, changed each share of common stock from a par value of \$2.50 per share to \$1.25 per share. Your option contains a provision that in the event of a split, the number of shares unexercised under the option shall be adjusted so that the unexercised portion of the option after the split shall be the equivalent of such portion before the split.

The following table shows (i) the number of shares available for exercise under your option before the 1968 split, (ii) the number of shares now available for exercise under such option adjusted for the two-for-one stock split, (iii) the original option price, (iv) option price adjusted for the 1968 split, and (v) the minimum number of shares exercisable under your option at any one time, as adjusted to date.

(i) Number of shares available for exercise before split	(ii) Number of shares now available for exercise by virtue of split	(iii) Original option price	(iv) Option price adjusted for stock split	(v) Minimum number of shares purchasable at one time
4000	8000	\$103.50	\$51.75	60 shares

We suggest that you attach this letter to your stock option as evidence of the Company's recognition of your remaining rights under your option and to guide your future actions under it.

EXHIBIT F

2. Use of Prospectus.

In April of this year you received a copy of the Company's Prospectus dated April 25, 1968, covering shares of Lilly stock which may have been or may be purchased by you pursuant to stock options.

Enclosed is an amendment, or "sticker", to the Prospectus that reflects the stock split, the increase in authorized shares and the elimination of authorized but unissued Preferred Stock.

I suggest that you affix the "sticker", which is gummed for the purpose, to the front page of your copy of the Prospectus dated April 25, 1968. If you sell any shares acquired by you on the exercise of stock options, it will be necessary for you to deliver a copy of that Prospectus, with the "sticker" attached, to each purchaser. If you make a sale through a broker acting as your agent (as distinguished from a broker purchasing from you for his own account), you should instruct him that the shares you are selling are covered by the Prospectus, as amended, and that the Prospectus, as amended, must be delivered to purchasers of such shares.

Additional copies of the Prospectus and the new "sticker" may be obtained from my office.

Very truly yours,

C. Henry Bradley Jr.

CHB:MWS

May 16, 1968

EXHIBIT G.

Mr. G. L. Varnes

**Re: Short-Swing Profits - Transactions in Lilly Stock
After Retirement of an Officer or Director**

You have asked whether or not the "short-swing" profit provisions of the Securities Exchange Act of 1934 apply to a purchase or sale by a director or officer after he retires or resigns.

You will recall that under Section 16(b) of that Act, officers, directors and 10% beneficial owners of Eli Lilly and Company are liable to the Company for any "profit" realized as the result of the purchase and sale, or the sale and purchase, of shares of any class of the Company's equity securities during any six month period. It has been held that the short-swing profit provisions apply to the transactions of a person who becomes a director or officer between the dates of two matching transactions. For example, if you sold Lilly Common Stock on May 1, 1968, were elected a director on June 1, 1968, and exercised an option on July 1, 1968, you would be liable for short-swing profits since you purchased and sold Lilly stock within a six month period.

The question you have asked, however, has not been decided by the courts. One of the leading writers in the securities field states that "it may be a bit more difficult to justify holding a person who had no access to inside information at the date of the second transaction than one who had no access at the date of the first." II Loss, Securities Regulation, p. 1061 (sec. Ed. 1961). He contends that the application of Section 16(b) seems foreclosed by the Commission's rule which exempts from Section 16(b) any transaction exempted from reporting under Section 16(a). That rule does not help one who becomes a director between the dates of the two transactions, because the reporting rule requires a filing with respect to any sale (or purchase) after a person becomes a director or officer even if the security was purchased (or sold) earlier. But no reports are required for transactions after a person ceases to be an officer, director or 10% beneficial owner.

In light of the harsh results which may arise from violations of Section 16(b) and the absence of a controlling decision, it would seem prudent to assume that a purchase or sale after you cease to be an officer or director may be matched against a sale or purchase effected during the time you are an officer or director and within the six month period.

Since this question relates to your personal liability, you may wish to consult your attorney.

C. H. Bradley, Jr.

EXHIBIT H.

April 1, 1969

Mr. J. O. Waymire

cc: Mr. E. N. Beesley

Mr. B. E. Beck

Mr. F. B. Croner, Jr.

Mr. E. F. Ratliff

Mr. W. C. Taylor, Jr.

Mr. G. L. Varnes

Re: Short-Swing Profits--Transactions in Lilly Stock After Retirement of an Officer or Director

Some time ago I sent you a memorandum⁽¹⁾ which discussed the application of the "short-swing" profit provisions of the Securities Exchange Act of 1934 to a purchase or sale of Lilly stock by a director or officer after he retires or resigns.

That memorandum observed the question had not been decided by courts and recommended in light of the harsh results which may arise from a violation of Section 16(b) that it would be prudent to assume that a purchase or sale after you cease to become an officer or director may be matched against a sale or purchase effected during the time you were an officer or director and within the six-month period.

This question has recently been the subject of an opinion by the United States Court of Appeals for the Second Circuit.⁽²⁾ The court ruled that Section 16(b) liability does attach to a corporate director's short-swing profits realized after he ceases to become a member of the board of directors.⁽³⁾ In so ruling, the court said:

"To be sure, the congressional belief that inside information could be abused, the belief that prompted the prophylactic

(1) Memorandum to Mr. Varnes dated May 16, 1968, a copy of which is attached. Short-swing profit liability should not be confused with the liability of "insiders" under the Texas Gulf case.

(2) Feder v. Martin Marietta Corp., CCH Fed. Sec. L. Rep. ¶92,333 (1969).

(3) Although the court's ruling is limited to a director's liability, it must be assumed that the liability of an officer would be the same. The statute evidences a clear intent to treat corporate officers and directors in one category of insiders and 10% shareholders in another.

EXHIBIT H

enactment of § 16(b), is just as germane to the situation when a person is a director only at the time of purchase as when he is a director only at the time of sale. For, in the case of a director who resigns his directorship before the sale, it is possible for both the purchase and sale to have been unfairly motivated by insider knowledge; whereas if the purchase were made prior to the directorship only the sale could be motivated by inside information. Clearly, therefore, a "short-swing" sale or purchase by a resigning director must be a transaction 'comprehended within the purpose of' § 16(b) ***."

If a director or officer purchases or sells Lilly common stock before he retires and after retirement within six months effects a matching transaction, he would be liable for short-swing profits. Section 16(b), of course, is not applicable unless one of the matching transactions (purchase or sale) was made at the time you were a director or officer of the company.

If you have any questions regarding this matter, please let me know.

C. H. Bradley, Jr.

jh
attachment

EXHIBIT I.

Mr. F. B. Croner, Jr.
Mr. G. W. Miller

For your information.

March 9, 1970

To the Directors and Officers

Re: Short-Swing Profits

If you plan to retire as a director (or cease to be an officer of the company), you will be interested in the attached memorandum by Mr. Croner. In short, the memorandum observes:

1. The short-swing profit rules have been held by a recent case to apply to a transaction in Lilly stock made after a person ceases to be an officer or director. Heretofore, we had assumed this was rule, but no case had squarely held so.
2. Following the decision, the SEC amended its rules to require the filing of a Form 4 (Statement of Changes in Beneficial Ownership of Securities) in certain cases after a person ceases to be a director or officer.
3. In connection with the application of the short-swing profit rule, the time of election to withdraw from the Savings Plan may be important.

C. H. Bradley, Jr.

jh
attachment

EXHIBIT I

Re: Changes in Beneficial Ownership of Lilly Stock--Obligations of Retired Directors and Officers**a. Liability for "Short-Swing" Profits**

The United States Court of Appeals for the Second Circuit has held that liability for "short-swing" profits may be incurred under the Securities Exchange Act of 1934 by a retired member of the board of directors or a retired officer if such profits are realized within six months after a matching transaction made while he was a director or officer. Therefore, if a director or officer purchases or sells Lilly stock before he retires and after retirement within six months effects a matching transaction, he would be liable for short-swing profits.

b. Filing of Form 4

Following the decision of the Court of Appeals, the SEC amended its rule relating to the filing of Form 4 (Statement of Changes in Beneficial Ownership of Securities) to require in certain cases the filing of that form for transactions occurring after a person ceases to be a director or officer. The amended rule requires that Form 4 must be filed for any change in beneficial ownership of Lilly stock that occurs within six months after a change that occurred while a person was a director or officer. This reporting requirement continues so long as changes occur that are within six months of other changes that occurred before a person ceased to be a director or officer. see, Reg. 240.16a-1, attached.

c. Withdrawals of Stock from The Lilly Employee Savings Plan

You should be aware that in connection with any withdrawal from The Lilly Employee Savings Plan, your election to receive Lilly stock in lieu of cash may be viewed as a "purchase" that can be matched with a sale made within six months prior to or subsequent to that election.

Thus, a director or officer who makes such an election prior to retirement would be required to report the transaction on Form 4 and may be liable for any profit resulting from a matching sale within six months after his election. Likewise, an election made after retirement could be matched with a sale made prior to retirement and within the six-month period and, in such event, would require the filing of Form 4.

Fred B. Croner, Jr.

EXHIBIT I
Insiders—Liabilities

Number 275-36
10-1-40

19,052

Regulations

**REPORTS OF DIRECTORS, OFFICERS, AND
PRINCIPAL STOCKHOLDERS**

11 26,002

Filing of Statements

Reg. § 240.16a-1. (a) Initial statements of beneficial ownership of equity securities required by Section 16(a) of the Act shall be filed on Form 3 [§ 33.711]. Statements of changes in such beneficial ownership required by that section shall be filed on Form 4 [§ 33.721]. All such statements shall be prepared and filed in accordance with the requirements of the applicable form.

(b) A person who is already filing statements pursuant to Section 16(a) with respect to equity securities registered pursuant to either Section 12(b) or 12(g) of the Act need not file an additional statement on Form 3:

(1) When an additional class of equity securities of the same issuer becomes registered pursuant to the same subsection of the Act; or

(2) If any class of equity securities is registered pursuant to Section 12(b), when another class of equity securities of the same issuer becomes registered pursuant to Section 12(g); or

(3) When such person assumes another or an additional relationship to the issuer; for example, when an officer becomes a director.

(c) Any issuer which has equity securities listed on more than one national securities exchange may designate one such exchange as the only exchange with which reports pursuant to Section 16(a) of the Act need be filed. Such designation shall be made in writing and shall be filed with the Commission and with each national securities exchange on which any equity security of the issuer is listed. After the filing of such designation the securities of such issuer shall be exempted with respect to the filing of statements pursuant to Section 16(a) of the Act with any exchange other than the designated exchange.

→ Paragraphs (d) and (e) of Reg. § 240.16a-1 are effective October 20, 1969 (see § 77.140). CCH.

(d) Any director or officer who is required to file a statement on Form 4 with respect to any change in his beneficial ownership of equity securities which occurs within 6 months after he became a director or officer of the issuer of such securities, or within 6 months after equity securities of such issuer first became registered pursuant to Section 12 of the Act, shall include in the first such statement the information called for by Form 4 with respect to all changes in his beneficial ownership of equity securities of such issuer which occurred within 6 months prior to the date of the changes which requires the filing of such statement.

(e) Any person who has ceased to be a director or officer of an issuer which has equity securities registered pursuant to Section 12 of the Act, or who is a director or officer of an issuer at the time it ceased to have any equity securities so registered, shall file a statement on Form 4 with respect to any change in his beneficial ownership of equity securities of such issuer which shall occur on or after the date on which he ceased to be such director or officer, or the date on which the issuer ceased to have any equity securities so registered, as the case may be, if such change shall occur within six months after any change in his beneficial ownership of such securities prior to such date. The statement on Form 4 shall be filed within 10 days after the end of the month in which the reported change in beneficial ownership occurs.

11 26,002 Reg. § 240.16a-1

© 1969, Commerce Clearing House, Inc.

EXHIBIT J.

Feb 2 - 1971
(Date)

Eli Lilly and Company
307 East McCarty Street
Indianapolis, Indiana 46225

Attention: Treasurer

Gentlemen:

Pursuant to the provisions of the Option dated Jan 20 - 1967
granted by Eli Lilly and Company to the undersigned, to purchase
common stock of Eli Lilly and Company, notice is hereby given that the
undersigned elects to exercise said option with respect to 6000
Shares at \$44.25 per share
for a total of \$265,500.00 to your order, in the amount of
accompanies this letter.

The undersigned hereby confirms that it is his present intention to
purchase the shares referred to above for investment and not with a
view to, or in connection with, any resale or distribution thereof.

Very truly yours,

Geo. L. Jones

$$6 - 1000 = 6000$$

$$4 - 100 = 400$$

$$\underline{6400}$$

EXHIBIT K.

Feb 2 - 1971
(Date)

Eli Lilly and Company
307 East McCarty Street
Indianapolis, Indiana 46225

Attention: Treasurer

Gentlemen:

Pursuant to the provisions of the Option dated 9-19-1968
granted by Eli Lilly and Company to the undersigned, to purchase
common stock of Eli Lilly and Company, notice is hereby given that the
undersigned elects to exercise said option with respect to 1000

Shares to your order, in the amount of
8-1000 = 8000 accompanies this letter.

The undersigned hereby confirms that it is his present intention to
purchase the shares referred to above for investment and not with a
view to, or in connection with, any resale or distribution thereof.

Very truly yours,

E. L. Palmer

eb

8-1000 = 8000

EXHIBIT L.

March 25, 1971
(Date)

Eli Lilly and Company
307 East McCarty Street
Indianapolis, Indiana 46225

Attention: Treasurer

Gentlemen:

Pursuant to the provisions of the Option dated Feb 7 - 1969 granted by Eli Lilly and Company to the undersigned, to purchase common stock of Eli Lilly and Company, notice is hereby given that the undersigned elects to exercise said option with respect to 4000

Shares at \$79.08 per share
to your order, in the amount of
\$316,320.00 accompanies this letter.

The undersigned hereby confirms that it is his present intention to purchase the shares referred to above for investment and not with a view to, or in connection with, any resale or distribution thereof.

Very truly yours,

George L. Varner

3-1000 Shares = 3000

1-500 " = 500

4-100 " = 400

4-25 " = 100

4000

4000 @ 79.08 = \$316,320.00

EXHIBIT M.

March 25-1971
(Date)

Eli Lilly and Company
307 East McCarty Street
Indianapolis, Indiana 46225

Attention: Treasurer

Gentlemen:

Pursuant to the provisions of the Option dated March 18-1970 granted by Eli Lilly and Company to the undersigned, to purchase common stock of Eli Lilly and Company, notice is hereby given that the undersigned elects to exercise said option with respect to 3000

Shares to your order, in the amount of \$262,500.00 accompanies this letter.

The undersigned hereby confirms that it is his present intention to purchase the shares referred to above for investment and not with a view to, or in connection with, any resale or distribution thereof.

Very truly yours,

George L. Barnes

3-1000 Shares

3000 @ 87.50 = \$262,500.00

EXHIBIT N.

GEORGE L. VARNES
7777 Ridge Road
Indianapolis, Indiana 46240

June 3, 1971.

General Counsel
Securities and Exchange Commission
500 N. Capitol Street, N.W.
Washington, D.C. 20549

Dear Sir:

Your advice is requested as to the earliest date on which I may sell shares of certain common stock of Eli Lilly & Co. purchased by me as a result of the exercise of certain qualified stock options granted to me while I was an officer and director of Eli Lilly & Co. so as not to come within the provisions of Section 16 (b) of the Exchange Act requiring the repayment of any profit from such sale.

For several years prior to February 1, 1971, I was an officer and director of Eli Lilly & Co. During the period of my employment I was granted certain qualified stock options to purchase the common stock of Eli Lilly & Co. The relevant options are as follows:

<u>Date Granted</u>	<u>No. of Shares</u>	<u>Option Price</u>
January 20, 1967	4,000	89.50 (1)
January 19, 1968	4,000	103.50 (2)
February 17, 1969	4,000	79.08
May 18, 1970	3,000	87.50

(1) By reason of a two for one stock split the number of shares increased to 8,000 and the price became \$44.75. (2) By reason of a two for one stock split the number of shares increased to 8,000 and the price became \$51.75.

On December 22, 1970 while an officer and director of Eli Lilly & Co. I exercised part of the option granted January 20, 1967 and purchased 1600 shares. During the six months period prior to December 22, 1970, I did not purchase or sell any shares of stock of Eli Lilly & Company.

On January 31, 1971, I resigned as an officer and member of the Board of Directors of Eli Lilly & Co. and such resignations were accepted on that date. Since that date I have been completely and fully retired from any participation in the management and conducts of the affairs of Eli Lilly & Co.

On February 2, 1971 I exercised the option granted January 20, 1967 and purchased the balance (or 6,400) of the shares remaining under that option.

On February 2, 1971 I exercised the option granted January 19, 1968 and purchased 8,000 shares.

On March 26, 1971 I exercised the options granted February 17, 1969 and May 18, 1970 and purchased 7,000 shares of Eli Lilly & Co.

As of April 1, 1971 and to date I own 35,000 shares of Eli Lilly Co. common stock.

It is my view and opinion that under the provisions of Section 16 (a) and 16 (b) profits may be recovered from any "insider" only if a purchase and sale takes place within a six months period when either the purchase or sale of stock was at a time when the person was an officer or director of the issuer and that in order to avoid the provisions of Section 16 (b), I must not make any sale of Eli Lilly common stock during a six month period commencing from December 22, 1970 (the date of the last purchase while I was an officer and director of Eli Lilly & Co.) or not earlier than June 23, 1971.

It is also my view and opinion that since the purchases I made on February 2, 1971 and March 26, 1971 were made after I ceased to be an officer, employee and director of Eli Lilly & Co. I may sell any of these shares after June 22, 1971 without being

EXHIBIT N

Page Three

liable to Eli Lilly & Co. for the repayment of any profits arising therefrom, the purchase and sale of these shares having taken place after I ceased to be an officer or director and employee of Eli Lilly & Co.

An informal opinion letter is hereby requested confirming my view or opinions of the application of Section 16 (a) and 16 (b) to my situation. If you are not in agreement with my interpretation please furnish me your opinion as to the earliest date on which I can sell my shares of Eli Lilly stock without being subject to the repayment provision of Section 16 (b) of the Act.

I hereby authorize you to send a copy of your opinion to the following:

Eli Lilly & Co.
Attn: General Counsel
Indianapolis, Indiana

Elmer E. Lyon
Attorney at Law
2700 Indiana Tower
Indianapolis, Indiana

Very truly yours,

George L. Varnes

cc: General Counsel
Eli Lilly & Co.
Indianapolis, Indiana

END JUN 29 1971

47

EXHIBIT O.

Mr. George L. Varnes
7777 Ridge Road
Indianapolis, Indiana 46240

JUN 28 1971

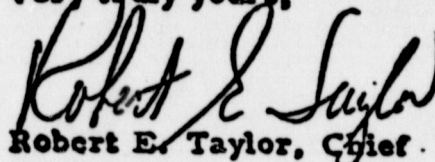
Dear Mr. Varnes:

This is in response to your letter of June 3, 1971 regarding the earliest date on which you could sell shares of Eli Lilly & Co. Common Stock without incurring any short-swing liability under Section 16(b).

Since the Commission is not charged with the enforcement of civil liabilities provided by Section 16(b), it would be inappropriate for us to render an opinion in any particular case. The scope and extent of such liabilities and questions of interpretation of this section are matters for determination by the appropriate courts in litigation between interested.

Therefore, I suggest that you confer with your attorney and the company counsel concerning this matter. In this connection, you may wish to read. *Adler v. Klawans* (CA-2, 1959) 267 F. 2d 840.

Very truly yours,



Robert E. Taylor, Chief
Section of Ownership Reports

CC: Eli Lilly & Co.
Attention: General Counsel
Indianapolis, Indiana 46240

Elmer E. Lyon
Attorney at Law
2700 Indiana Tower
Indianapolis, Indiana

Copies to: F. B. Croner, Jr.
W. C. Taylor, Jr.

EXHIBIT P.

RAFFENSPERGER, HUGHES & CO.

20 North Meridian Street
Indianapolis, Indiana 46204

Member Midwest Stock Exchange

Telephone 317/635-4551

EXHIBIT "B"

Confirmation
and Statement

If this statement is not in accordance with your
understanding, notify us immediately.

To

- George L. Varnes
- 7777 Ridge Road
- Indianapolis, Indiana

TRADE DATE
Mo. - Day - Year

7/6/71

SETTLEMENT DATE
Mo. - Day - Year

7/13/71

- ☒ As Agent for you we have sold for your account
- ☐ As Agent for another we have purchased from you
- ☐ As Principal for our own account we have purchased from you
- ☐ As Account Member we have purchased from you

Exchange NYSE Salesman LGT

PAR OR SHARE	SECURITY	PRICE	AMOUNT
100 shs.	ELI LILLY COMMON	124 3/4	\$ 12,475.00
		Commission - - - -	40.00
		Tax - - - - -	
		S.E.C. Fee - - - -	.25
		N.Y. State Tax - - -	4.00

Special Instructions:

TOTAL SALE 6300 shs.

Accrued interest

from _____ to _____

/mb

CUSTOMER WILL DEL. SEND CHECK.

TOTAL \$ 12,430.75

Prompt Delivery of Securities is Expected.

If we have acted as your Agent, we will upon request, furnish the time and place
of the transaction and the name and address of the buyer.

ONLY COPY AVAILABLE

EXHIBIT Q.

RAFFENSPERGER, HUGHES & Co.

20 North Meridian Street
Indianapolis, Indiana 46204

Member Midwest Stock Exchange

Telephone 317/635-4551

Confirmation
and Statement

If this statement is not in accordance with your
understanding, notify us immediately.

To

- George L. Varnes
- 7777 Ridge Road
- Indianapolis, Indiana

TRADE DATE
Mo - Day - Year

7/6/71

SETTLEMENT DATE
Mo - Day - Year

7/13/71

- ☒ As Agent for you we have sold for your account
- ☐ As Agent for another we have purchased from you
- ☐ As Principal for our own account we have purchased from you
- ☐ As Account Member we have purchased from you

Exchange

MWSE

Salesman LGT

PAR OR SHARE	SECURITY	PRICE	AMOUNT
1000 shs.	ELI LILEY COMMON	124 1/2	\$ 124,500.00
		Commission -	400.00
		Tax -	
		S.E.C. Fee -	22.49
		N.Y. State Tax - . .	

Special instructions:

TOTAL SALE 6300 shs.

Accrued interest

from _____ to _____

/mb

CUSTOMER WILL DELIVER. SEND CHECK.

TOTAL \$ 124,097.50

Prompt Delivery of Securities is Expected.

If we have acted as your Agent, we will upon request, furnish the time and place
of the transaction and the name and address of the buyer.

ONLY COPY AVAILABLE

EXHIBIT R.
KAFFENSPERGER, HUGHES & CO.

20 North Meridian Street
 Indianapolis, Indiana 46204

Member Midwest Stock Exchange

Confirmation
 and Statement

Telephone 317/635-4551

If this statement is not in accordance with your understanding, notify us immediately.

To

- George L. Varnes
- 7777 Ridge Road
- Indianapolis, Indiana

TRADE DATE
 Mo. - Day - Year
 7/6/71

SETTLEMENT DATE
 Mo. - Day - Year
 7/13/71

- ☒ As Agent for you we have sold for your account
- ☐ As Agent for another we have purchased from you
- ☐ As Principal for our own account we have purchased from you
- ☐ As Account Member we have purchased from you

Exchange NYSE Salesman LGT

PAR OR SHARE	SECURITY	PRICE	AMOUNT
500 shs.	ELI LILLY COMMON	125 1/4	\$ 62,625.00
		Commission - - - -	200.00
		Tax - - - - -	1.26
		S.E.C. Fee - - - -	20.00
		N.Y. State Tax - - -	

Special Instructions: TOTAL SALE 6300 shs.
 CUSTOMER WILL DEL. SEND CHECK.

Accrued interest
 from to

TOTAL \$ 62,403.75

Prompt Delivery of Securities is Expected.

If we have acted as your Agent, we will upon request, furnish the time and place of the transaction and the name and address of the buyer.

ONLY COPY AVAILABLE

EXHIBIT S.

RAFFENSPERGER, HUGHES & CO.

20 North Meridian Street

Indianapolis, Indiana 46204

Member Midwest Stock Exchange

Telephone 317/635-4551

Confirmation
and StatementIf this statement is not in accordance with your
understanding, notify us immediately.

To

- George L. Varnes
- 7777 Ridge Road
- Indianapolis, Indiana

TRADE DATE
Mo - Day - Year

7/6/71

SETTLEMENT DATE
Mo - Day - Year

7/13/71

- ☒ As Agent for you we have sold for your account
- ☐ As Agent for another we have purchased from you
- ☐ As Principal for our own account we have purchased from you
- ☐ As Account Member we have purchased from you

Exchange NYSE Salesman LGT

PAR OR SHARE	SECURITY	PRICE	AMOUNT
4400 shs.	ELI LILLY COMMON	124 1/2	\$ 547,800.00
		Commission - - - -	2,218.00
		Tax - - - - -	
		S.E.C. Fee - - - -	10.96
		N.Y. State Tax - - -	176.00

Special instructions:

Accrued interest

from to

/mb

TOTAL SALE 6300 shs. Customer will deliver
Send check.

TOTAL \$ 545,395.00

Prompt Delivery of Securities is Expected.

If we have acted as your Agent, we will upon request, furnish the time and place
of the transaction and the name and address of the buyer.

ONLY COPY AVAILABLE

EXHIBIT T.

KAFFENSBERGER, HUGHES & CO.

20 North Meridian Street

Indianapolis, Indiana 46204

Member National Stock Exchange

Telephone 317/635-4551

Confirmation
and Statement

If this statement is not in accordance with your understanding, notify us immediately.

To

- George L. Varnes
- 7777 Ridge Road
- Indianapolis, Indiana

TRADE DATE
Mo - Day - Year

7/6/71

SETTLEMENT DATE
Mo - Day - Year

7/13/71

- ☒ As Agent for you we have sold for your account
- ☐ As Agent for another we have purchased from you
- ☐ As Principal for our own account we have purchased from you
- ☐ As Account Member we have purchased from you

Exchange

MWSE

Salesman LGT

PAR OR SHARE	SECURITY	PRICE	AMOUNT
300 shs.	ELI LILLY COMMON	124 3/4	\$ 37,425.00
		Commission -	120.00
		Tax -	
		S.E.C. Fee -75
		N.Y. State Tax -	

Special instructions:

/mb

TOTAL SALE 6300 shs.
CUSTOMER WILL DELIVER. SEND CHECK.

Accrued interest
from _____ to _____

TOTAL \$ 37,304.25

Prompt Delivery of Securities is Expected.

If we have acted as your Agent, we will upon request, furnish the time and place of the transaction and the name and address of the buyer.

ONLY COPY AVAILABLE

EXHIBIT U.
GEORGE L. VARNES
7777 Ridge Road
Indianapolis, Indiana 46220

July 13, 1971

Mr. C. H. Bradley, Jr., Secretary
Eli Lilly and Company
Indianapolis, Indiana

Dear Mr. Bradley:

Pursuant to the provisions of the Stock Option Plans made available to me while I was an employee of Eli Lilly and Company, this is to advise you that on July 6, 1971 I sold 6300 shares of the common stock of your company.

Three thousand of these shares were acquired by me as a result of the Stock Option granted May 18, 1970 at an option price of \$87.50 per share. I acquired these 3000 shares on March 26, 1971.

The other 3300 shares making up the total of 6300 were acquired on March 20, 1971 by the exercise of an option granted to me on February 17, 1969 at the option price of \$79.08.

The 6300 shares sold on July 6, 1971 was made up of the following transactions: 400 shares at \$124.75, 500 shares at \$125.25 and 5400 shares at \$124.50.

I made the foregoing sales after my attorney, Elmer L. Lyon, had advised me that you as General Counsel of Eli Lilly and Company was in agreement with his position that any sale made by me after termination of my employment and made six months after any purchase while an employee would not be subject to insiders profits.

I wish to thank you kindly for your cooperation in this matter.

Sincerely,

George L. Varnes

MORRIS J. LEVY
COUNSELOR AT LAW

EXHIBIT V.

TELEPHONE WORTH 2-1888

September 14, 1972

*261 Broadway
New York 7, N.Y.*

Eli Lilly and Company
307 East McCarty Street
Indianapolis, Indiana 46206

Gentlemen:

I am the attorney for Mr. Harry Lewis, a stockholder of Eli Lilly and Company, hereinafter referred to as the "Corporation".

On behalf of my client I hereby request the Corporation to institute suit, as contemplated by Section 16(b) of the Securities Exchange Act of 1934, to recover the profits realized by Mr. George L. Varnes, a former officer and director of the Corporation, from his purchases and sales of the Corporation's stock within periods of less than six months.

I believe such suit is warranted by the following facts:

Between on or about December 22, 1970 and July 29, 1971, in transactions effected within periods of less than six months, Mr. Varnes purchased 16,000 shares and sold 12,000 shares of the Corporation's common stock realizing recoverable profits therefrom in the sum of approximately \$220,000.00.

Unless the Corporation institutes suit to recover such profits within sixty (60) days, and unless I receive due proof before the expiration of this period that such suit has been instituted or that the profits have been repaid, my client will file an appropriate action therefor on the Corporation's behalf.

M.J.Lem

Very truly yours,

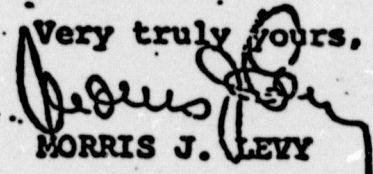

MORRIS J. LEVY

EXHIBIT W.

ELI LILLY AND COMPANY

INDIANAPOLIS, INDIANA 46206

September 22, 1972

C. HARVEY BRADLEY, JR.
GENERAL COUNSEL
SECRETARY

bcc: Mr. E. N. Beesley
Mr. F. B. Croner, Jr.
Mr. E. E. Lyon
Mr. E. F. Ratliff
Mr. W. C. Taylor, Jr.
Mr. G. L. Varnes
Mr. R. D. Wood

AIR MAIL

Mr. Morris J. Levy
261 Broadway
New York 7, New York

Dear Mr. Levy:

This letter is in response to your letter of September 14, 1972, requesting Eli Lilly and Company ("Company") to commence an action against Mr. George L. Varnes for the recovery of alleged profits under Section 16(b) of the Securities Exchange Act of 1934.

Your belief that such action is warranted is based on an erroneous assumption of facts. Mr. Varnes, in connection with his retirement, resigned as an officer and as a director of the Company effective January 31, 1971. (1)

Our records and Mr. Varnes' Form 4s filed with the SEC show (i) that the only transaction in Company common stock by Mr. Varnes during the six month period immediately preceding the effective date of his resignation was a purchase on December 22, 1970, of 1,600 shares and (ii) the only sales of such stock made by Mr. Varnes in 1970 and 1971 totaled 6,300 shares and were all made on July 6, 1971. While such sales were made less than six months after Mr. Varnes' resignation, they were made more than six months after his last purchase prior to his resignation. Therefore, the Company does not intend to comply with your request because Mr. Varnes realized no "profit" that inures to and is recoverable by the Company under Section 16(b) of the Securities Exchange Act of 1934.

Very truly yours,

C. Harvey Bradley, Jr.

CHB:csd

(1) We note that the Official Summary of Security Transactions and Holdings issued by the SEC did not indicate Mr. Varnes' resignation until the July 1971 issue. However, the effective date of his resignation was shown on his Form 1 filed with the SEC for the months of February, March and July 1971, respectively.

Copy Received
Date May 22, 1974
attny - El' Heller

Copy Received
Date 5/27/74 - 4:00 pm.
Shaw Bernstein Scherer
Boyd & Smith
Atty's for Dept
George L. Barnes

